



Arnold Schwarzenegger, Governor  
State of California  
Business, Transportation and Housing Agency

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via electronic mail and USPS delivery

Ms. Janette Lopez  
Chief Deputy Director  
California Managed Risk Medical Insurance Board  
1000 G Street, Suite 450  
Sacramento, CA 95814

**RE: EVALUATION OF HEALTH NET OF CALIFORNIA (EPO) MEDICAL LOSS RATIO SUBMISSION**

Dear Ms. Lopez:

The Department of Managed Health Care (DMHC) hereby provides the Managed Risk Medical Insurance Board (MRMIB), Healthy Families Program (HFP) with the following report regarding the evaluation of Health Net of California's (EPO) (HN-EPO) HFP loss ratio submission for the period July 1, 2007 through June 30, 2008. This report outlines the project objectives, methodology and results.

- I Objectives: The purpose of the loss ratio evaluation was to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers and reported by HN-EPO. As part of this evaluation, DMHC performed the following:
- A Determined whether 100% of the children who received services paid by HN-EPO were enrolled in the HFP at the time the services or capitated coverage were provided
  - B Summarized the total capitation and benefit payments within the detailed data provided by HN-EPO and compared the total payments to the amount reported on Schedule 6 submitted by HN-EPO
  - C Summarized the total payments made by HN-EPO for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by HN-EPO on Schedule 6.

To achieve the objectives outlined above, DMHC performed data analysis on information provided by MRMIB and HN-EPO and corresponded with management personnel at HN-EPO. Primary contacts at HN-EPO were David Meadows, VP State Health Programs; Afzal Shah, Director of Actuarial Services; Marie Hidalgo, Supervisor of Financial Planning and Daria Baker, Compliance and Reporting Manager.

## II Methodology

### A Determined whether 100% of the children who received services paid by HN-EPO were enrolled in the HFP at the time the services were provided.

- 1 DMHC obtained electronic files containing payments made for HFP subscribers. Additionally, the Department obtained electronic files from MRMIB of all children eligible for whom payments were made for benefits as a HN-EPO subscriber during the period of July 1, 2007 through June 30, 2008.
- 2 Using the two files, DMHC compared the Client Index Number (CIN) and Date of Service on HN-EPO files to determine if there were any payments made by HN-EPO for subscribers that were not eligible for benefits according to the eligibility file received from MRMIB.

Table 1 – Capitation and Fee for Service payments for individuals that were not listed as eligible members per the data files provided by Maximus for the service periods under examination.

**Table 1** (Ineligible Expenditures)

Claims/Capitation Payments Category	Data Base Total		Ineligible Data		
	Number of claims/services	Amount	Number of claims/services	Amount	Percent Error on Amounts
Capitation	30,392	\$16,418	3,004	\$44	0.27%
Fee-for-Service Payments Professional	3,395	\$393,896	9	\$835	0.21%
Fee-for-Service Payments Institutional	514	\$466,028	1	\$121	0.03%
Pharmacy	2,181	\$88,399	7	\$34	0.04%

Notes for Table 1: FFS, Capitation and Pharmacy payment mismatches identified during the examination were determined to be immaterial by the examiner and were not proposed as adjustments for the audit.

### B Summarized the total benefit payments within the detailed data provided by HN-EPO and compared the total payments to the amount reported on Schedule 6 submitted by HN-EPO.

Using electronic files and paper documentation received from HN-EPO in Section II above, and HN-EPO's Schedule 6 loss ratio submission provided by MRMIB, DMHC compared the total of the payments on the electronic files and paper documentation to the data reported on Schedule 6.

*This analysis represents payments made by the Plan to their contracted providers and not payments made by MRMIB to the Plans.*

**Table 2**  
Difference between Sch 6 reported amounts and Database Details<sup>1</sup>

Description	Sch 6	Plan Data	Difference Overaccrued/ (Underaccrued)	Percent Error
Physician claims	\$407,354	\$393,896	\$13,458	3.42%
Physician Capitation	\$1,218	\$0	\$1,218	N/A
Hospital claims	\$512,817	\$466,028	\$46,789	10.04%
Pharmacy claims	\$80,179	\$80,269	(\$90)	-0.11%
Other Medical Services – Capitated <sup>2</sup>	\$16,167	\$16,418	(\$251)	-1.53%
Other Medical Services - Non-Capitated	\$4,266	\$0	\$4,266	N/A

**Note 1:** The data base provided by HN-EPO was analyzed based on the period of service and has been determined the most accurate measure of medical expense for the period of the examination. The data base included a review of costs identified through August 31, 2009 after the exam period to ensure capture of all amounts which would have been identified via accruals/IBNRs.

**Note 2:** Other Medical Services Capitated include Behavioral Health Capitation and Chiro Capitation;

**C Summarized the total payments made by HN-EPO for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by HN-EPO on Schedule 6.**

**Table 3**  
Detailed reconciliation of detailed data files to Schedule 6

	Category	Reported On Schedule 6	Balance Per DMHC Review	Variance Overaccrued/ (Underaccrued)
	Subscriber Months	10,274	10,279	(\$5)
1	Premium Payments from State	\$1,163,514	1,163,514	(\$0)
	<b>Affiliated Entities and Nonaffiliated Entities</b>			
2	Incentive Payments to Affiliated Parties			
3	Incentive Payments to Nonaffiliated Parties			
4	Total Incentive Payments			
	<b>Expenses</b>			
	<b>Medical and Hospital</b>			
5	Inpatient Services - Capitated			
6	Inpatient Services - Per Diem			
7	Inpatient Services - Fee-for-service/case rate	\$512,816	\$466,028	\$46,788
8	Promary Professional services - Capitated	\$1,218	\$0	\$1,218
9	Promary Professional services - Non-Capitated	\$407,354	\$393,896	\$13,458
10	Other Medical Professional Services - Capitated	\$4,266	\$16,418	(\$12,152)
11	Other Medical Professional Services - Non-Capitated <sup>1</sup>	\$16,167	\$0	\$16,167
12	Non-Contracted Emergency Room and Out-of-Area Expense, not incl. POS			
13	POS Out-of-Network Expense			
14	Pharmacy Expense	\$80,179	\$80,269	(\$90)
15	Other Medical Expense	\$6,787	\$6,787	\$0
16	Aggregate Write-ins for Other Medical and Hospital Expense			
17	TOTAL MEDICAL AND HOSPITAL	\$1,028,787	\$963,398	\$65,389
A	<b>Gross Profit</b>	<b>\$134,727</b>	<b>\$200,117</b>	
B	<b>MEDICAL LOSS RATIO</b>	<b>88.42%</b>	<b>82.80%</b>	

**Note 1:** Capitation payments for Behavioral Health Services reported on line 11 as Other medical Professional Services - Non-Capitated, were reclassified as Other Medical Professional Services – Capitated.

### III Summary of Findings

A. HN-EPO reported Total Medical and Hospital expense and Medical Loss ratio of \$1,028,787 and 88.42% respectively. Balance per DMHC review is \$963,398 and 82.80% respectively. The difference is generated from a data compilation methodology. The Balance per DMHC review has been determined based on a historic review of payment data with a look back based on the identified Service Date. The HN-EPO's Schedule 6 methodology is based upon cash payments adjusted for IBNR.

### IV Limitations

This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by HN-EPO on their Schedule 6 Medical Loss Ratio Report. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

Please feel free to call Anna Belmont, DMHC Examiner with any questions pertaining to this report.

Sincerely,

Anna Belmont, Examiner  
Division of Financial Oversight

Stephen Babich, Supervising Examiner  
Division of Financial Oversight

cc: Lan Yan, Federal Compliance Unit, MRMIB  
Tony Lee, Chief Fiscal Services, MRMIB  
Mark Wright, Supervising Examiner, DMHC